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Bangladesh Foodgrain Situation

Summary

Bangladesh continues to struggle with food shortages because of insufficient production and its limited ability to finance imports. Prospects for the FY 75 grain crop are reasonably good, but grain imports will be about the same as last year. With little margin for error, any bottlenecks in grain shipments could cause a rapid deterioration in the government's system for distributing grain in urban areas.

Background

The food situation is tight, as usual. We estimate FY 75 foodgrain production -- virtually all rice -- at about 12.0 million tons, slightly more than last year. Flood damage to rice crops in some areas will be partially offset by increased yields in the dryer areas.

Rice production has recovered to pre-independence levels, but a rapidly expanding population has kept Bangladesh heavily dependent on imported foodgrains. Imports of at least 1.8 million tons of grain are needed in FY 75 to prevent a deterioration in already minimal consumption. Last year Bangladesh imported 1.7 million tons of grain, including 500,000 tons of US wheat, of which 80,000 tons was under PL-480 Title I.

Imports are the principal source of grain for government distribution to cities and other grain deficit areas/

e Department of cultur drelease instructions apply.

procurement has repeatedly been nearly negligible and probably will remain so. The import of 1.8 million tons of grain would not lead to a rebuilding of government stocks in FY 75. Bangladesh will continue to need sizable grain imports for years to come.

To date, Dacca has arranged for nearly 1 million tons of grain imports in FY 75, including:

- * 70,000 tons of wheat under FY 74 PL-480 agreements,
- * 100,000 tons of wheat and 50,000 tons of rice under
 FY 75 PL-480 agreements,
- * 300,000 tons food aid from other donors, and
- * 450,000 tons of commercial purchases made early in 1974.

Indian Foodgrain Outlook

Summary

India again faces a year of foodgrain shortages.

Production from the major fall harvest will be down sharply from last year due to a below normal monsoon. New Delhi needs 6 million tons of imported grain in the year ending 30 June 1975 to keep its subsidized distribution system operating at minimum levels. Only half this amount has been arranged and prospects for food aid are not good.

Background

Indian grain production is critically dependent on the June-September monsoon, which normally delivers about three-quarters of annual rainfall. About two-thirds of annual grain production is grown during the monsoon period and harvested in fall. The monsoon also provides soil moisture for the winter sowing of spring crops and provides much of the water stored for irrigation.

Several years of good weather through early 1972, combined with the new technology of the "Green Revolution", enabled India to increase per capita consumption levels following the mid-1960s drought, to nearly eliminate grain imports, and to build up stocks totalling 9 million tons by July 1972. The poor 1972 monsoon, however, caused crop failures and dashed Indian hopes of maintaining self-sufficiency in foodgrains. Grain production since 1972 has remained below expectations.

This fall's grain harvest will be far less than last year's 67 million tons because of below normal monsoon rains. The US embassy projects production at between 58-62 million tons, depending on conditions through the harvest. The current foodgrain situation is quite analogous to that of 1972 when widespread food shortages were last experienced in fall's harvest will be India. While this / larger than the drought-reduced fall harvest of 57 million tons in 1972, India is not better off than 2 years ago because:

- * government grain stocks on 1 July 1974 were only 4 million tons compared to 9 million tons on 1 July 1972; and
- * India has 26 million more people than in 1972.

 While it is too early to forecast next spring's harvest, the poor monsoon means that sowing conditions will be hurt by low soil moisture. Other factors influencing output are unlikely to improve: electricity shortages will continue to plague irrigation and fertilizer supplies are not expected to increase significantly.

A poor fall harvest will increase pressure on the government's grain distribution system, which provides subsidized grain sales in urban and selected other deficit areas. In US FY $74\frac{1}{}$ / 11 million tons were distributed by the government,

The US fiscal year, US FY, ending 30 June of the stated year is used in this discussion of the foodgrain situation.

compared with 11.7 million tons in US FY 73. A minimum of 12 million tons will be needed in US FY 75. Judicious distribution of this grain by the government should reduce the incidence of food riots.

Imports and government procurement of domestic grains make up government supplies. To distribute 12 million tons of grain, the government will need 6 million tons of imports in US FY 75. (Imports in US FY 74 were 4.7 million tons.) The remaining grain will come from stocks -- 4 million tons on 1 July -- and government procurement projected at 2 million tons from the fall harvest. Repressive measures against farmers who hold grain stocks might increase domestic procurement and reduce import needs for the distribution system. Procurement from the next spring harvest will provide little for distribution in US FY 75, but will add to carryover stocks for US FY 76.

To date India has arranged 2.8 million tons of grain imports, as follows:

- * 1.8 million tons of commercial US purchases,
- * 430,000 tons of sorghum and 250,000 tons of wheat purchased from Argentina,
- * 220,000 tons of Canadian wheat, including 140,000 tons as food aid,
- * 100,000 tons of Soviet wheat due from last year's grain

loan, and

* 40,000 tons of wheat under an Australian grant.

Indian officials would like to meet their remaining grain needs through food aid rather than commercial purchases. Prospects for large scale aid, however, are poor. New Delhi is seeking a repeat of last year's 2 million ton grain loan from Moscow, but the Soviets appear unwilling. New Delhi has requested 1 million tons of EEC wheat -- half as aid, half for commercial purchase. This volume of EEC wheat is unlikely to be forthcoming unless the EEC's use of wheat for feeding livestock is less than forecast. India has discussed concessional grain imports with the US. Mrs. Gandhi, however, is boxed in by her statements following the 1971 war with Pakistan that India would not accept PL-480 Title I grain shipments.

Pakistan Foodgrain Outlook

Summary

The immediate foodgrain situation is far less serious than in India or Bangladesh. Nonetheless, the government needs imported wheat to maintain subsidized grain distribution to the politically volatile urban areas. The US in the past has provided substantial amounts of concessional grain imports, which Pakistan's leaders would like to continue.

Background

Pakistan is a net importer of foodgrains, buying large volumes of wheat and exporting moderate quantities of rice. Since rice is more expensive and some wheat is received as aid, the earnings from rice exports far exceed the cost of wheat imports.

Last spring's wheat harvest is estimated by our Agricultural Attache at a record 8 million tons. (Government officials, cognizant of their aid requests, estimate 7.5-8.0 million tons.) Because the harvest fell short of expectations, government procurement for the subsidized grain distribution system is less than needed to maintain distribution through FY 75. Accordingly, we estimate Pakistan will import some 800,000 tons of wheat in FY 75, compared with 1 million tons in FY 74. Pakistan so far has arranged 375,000 tons of wheat

imports for FY 75 including 200,000 tons purchased from the US. Pakistan would like PL-480 grain shipments or CCC credits. Last year Pakistan imported 535,000 tons of US wheat, including 60,000 tons under PL-480 Title I and 170,000 tons under CCC credits. Some 40,000 tons of sorghum were also supplied under the Title I program.

The coming fall rice harvest should reach a record 2.5 million tons, allowing rice exports of 500,000 tons in FY 75, compared with 400,000 tons last year.

Pakistan's goal of self-sufficiency in wheat production received a serious setback recently when construction faults appeared in the massive Tarbela Dam during its test filling. This development project is to be a major source of irrigation waters and electricity. Drainage of the dam for inspection and repair has dashed hopes for substantial increases in next year's wheat crop.

Bangladesh: Foreign Exchange Problems, Impact of Global Inflation and Oil Frice Rises

Summary

Foreign exchange resources are insufficient to provide minimum food and production requirements. A balance of payments deficit of \$150-\$250 million is expected in FY 1975 (July 74-June 75) despite substantial foreign aid disbursements. Rising oil and grain prices have been major contributors to the problem. Bangladesh's lack of resources and rapidly growing population will keep the country dependent on foreign assistance for the foreseeable future.

When commodity prices started rising rapidly in late 1972, the Bangladesh economy had not yet recovered from the disruptions of the independence struggle. With no domestic petroleum production and inadequate foodgrain production to feed its rapidly growing population, economic recovery was retarded by rapidly rising import costs. Even with stringent controls, FY 1975 imports are expected to exceed \$1 billion, compared with approximately \$900 million in FY 1974. Foodgrain imports will account for more than \$360 million. Oil imports will cost about \$130 million, two-thirds more than last year, but quantity will not change appreciably.

Export earnings in FY 1975 will be about \$400 million compared with about \$390 million last year, with raw jute and

jute goods remaining the major commodities. The jute crop will be smaller this year than last because of floods and reduced acreage, but prices have risen.

Thus, Bangladesh will face a trade deficit of about \$600 million this year. To finance this deficit, Dacca can draw on:

- * Foreign aid disbursements/over \$450 million from bilateral donors and multilateral agencies.
- * The cash portion of flood aid -- about \$28 million -- more than half of which was from Arab oil producers.
- * Income of approximately \$20 million when oil exploration contracts are signed this fall.
- * Foreign exchange reserves, which were only \$35 million in mid-August -- equivalent to about 4% of the already constrained annual imports.

When invisibles are included, a balance of payments deficit of \$150 million to \$250 million will remain. Additional foreign assistance may be made available when a World Bank sponsored consortium of donors meets for the first time this October.

Foreign exchange stringency has contributed to a 40% rise in the urban cost of living during the past year by reducing the availability of consumer goods and of inputs for local production. The government deficit has been increasing, since revenues derive largely from taxes on imported goods.

India: Foreign Exchange Problems,
Impact of Inflation and Oil Prices

Summary

India's economy is unusually troubled.

- * Projected petroleum imports will cost \$1.2 billion or about one-third of export earnings during the fiscal year ending 31 March 1975.
- * Reduced foodgrain production threatens famine unless

 New Delhi imports at least 6 million tons of foodgrains valued at about \$1.billion during FY 1974/7.5.
- * Wholesale prices, climbing at an annual rate of about 40%, have frustrated industrial production and sharply reduced investment.
- * Slumping industrial production is hurting exports and aggravating inflation.

Petroleum

FY 1974/75 petroleum imports -- 280,000 bpd of crude and 40,000 bpd of products -- will cost an estimated \$1.2 billion, about one-third of projected export earnings, compared to \$485 million, or 16% of earnings the previous year.

Indian officials have been scrambling all over the Persian Gulf to obtain oil on concessionary terms. They seek special prices, loans on long-term and/or low interest rates, repayment with Indian goods, and various combinations of arrangements.

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India also is seeking maximum loan and debt relief from the World Bank. New Delhi has enlisted Soviet technical assistance and contracted with private foreign investors to accelerate development of domestic oil production.

Nonetheless, only two oil supply agreements have been established on concessionary terms. Agreements with Iran and Iraq, providing purchases at 93% of posted price, include small down payments at the time of delivery followed by a 5-year grace period and repayment over the next 5 years at 2.5% annual interest. These agreements will supply 104,000 bpd of crude -- 37% of India's crude oil requirement -- in 1974 at a balance of payment savings of about \$250 million. Inflation

Wholesale prices in recent weeks have climbed at an annual rate of about 40%, following a record 28% for the year ending 30 June 1974. Mrs. Gandhi's anti-inflation measures have not reached the heart of the problem: the government's unchecked deficit spending and severe shortages of industrial and agricultural goods. Uncertainties generated by inflation have brought a decline in public and private investment.

Foreign Exchange Problem

In addition to increases import costs for petroleum, higher prices for fertilizer, food and other developmental imports needed to maintain industrial production will push India's 1974 import bill up about \$1.7 billion to \$5 billion.

Exports alone cannot pay the increasedimport costs. Prices of most major Indian exports have increased much less than import prices. Export earnings in 1974 will increase about 20% to \$3.6 billion, leaving a \$1.4 billion trade deficit.

An additional billion dollar outflow on other transactions -- largely debt service -- raises the 1974 balance of payments deficit to \$2.4 billion. This deficit is to be reduced by about \$2 billion, as follows:

	Million US\$
Non-petroleum foreign aid	\$1,400
Iran & Iraq oil concession	250
IMF standby credit	375
Total	\$2,025

Foreign exchange reserves that totaled \$1.4 billion at the beginning of the year could be drawn down to cover part of the deficit. Concern for the heavy debt service burden -- \$755 million in 1974 -- and the ever present threat of crop failures, however, make New Delhi reluctant to use its reserves. India's credit rating in the private international money market is good. Foreign bank loans are available to the Indian government, and Indian firms are seeking funds for the first time in Eurodollar markets.

Pakistan - Foreign Exchange Problems, Impact of Inflation and Oil Prices

Summary

Pakistan's economy is in for a difficult year. Increased import prices, a 30% inflation and a depressed world market for cotton and textiles, the country's major exports are the main causes of Islamabad's woes.

Background

Pakistan has been hard hit by the energy crunch. The government expects the oil import bill to reach \$385 million in FY 75, up from \$222 million last year and \$57 million in FY 73.

The government's oil bill estimate, made in the 2nd quarter of 1974, may be somewhat high, since Iran subsequently has agreed to supply 2 million tons of crude -- about 60% of Pakistan's annual requirement -- at \$1.00 per barrel less than the average price for crude oil FOB the Persian Guld. This concession has not been made public knowledge, to protect Iran's position in OPEC.

Pakistan produces little oil, but prospects are good for increased domestic production by the late 1970s. Alternate energy sources include ample reserves of natural gas and coal and a large potential for hydroelectric power.

Construction problems at the giant Tarbela Dam have been a real and psychological shock to the country's development

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plans. Tarbela will ultimately produce 2.1 million kw., doubling the country's electrical capacity. The US is the largest foreign donor to the project.

Pakistan's trade deficit could reach \$500 million this year, compared with \$125 million in FY 73 and \$350 million last year. In addition to the increased price of petroleum imports, the cost of fertilizer and wheat imports have risen, substantially. Exports will show little increase this year because, while rice prices are still high, raw cotton and cotton textile prices have fallen sharply since last year. Islamabad's finances are in good order due to:

- * Generous aid from Persian Gulf oil exporters -- Iran
 is providing \$250 million this year as part of a total
 \$580 million balance of payments loan. The balance
 of the loan will be received over the next two years.
- * Consortium countries have pledged \$500 million in new aid and \$175 million as part of a \$650 million rescheduling of outstanding debts over the next four years. The US has pledged about \$120 million in new aid, and remains Pakistan's largest creditor, holding some 40% of the country's \$4 billion debt.

The most immediate trade problems are the need for additional wheat imports and increased exports of surplus cotton and textiles.

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Inflation remains serious, with little chance for abatement through 1975. Wholesale prices are rising 30% annually, compared with 20% last year and 9% in FY 72. Attempts to control inflation through higher export duties, increased subsidies on food and other essential commodities, and price control at the provincial and national level have had little effect because they do not attack the major causes of inflation: surging import prices, heavy deficit financing, and spiraling wage settlements.